

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 IO-10 ISO-00 AGR-05 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01

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R 161200Z OCT 75

FM AMCONSUL SAO PAULO

TO SECSTATE WASHDC 6496

INFO AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

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GENEVA FOR PHELAN

E.O. 11652: N/A

TAGS: ETRD, BR

SUBJECT: TEXTILES

REF: STATE 224405

1. THE INFORMATION PROVIDED SECSTATE BY U.S. TEXTILE INDUSTRY SOURCES HAS A BASIS OF FACT BUT IT APPEARS TO BE IN ERROR IN ITS INTERPRETATION THAT THE GOB INCENTIVES ARE ESSENTIALLY EXPORT-ORIENTED OR THAT THEY APPLY SPECIFICALLY TO MAN-MADE TEXTILES.

2. IN THE ABSENCE OF SPECIFIC IDENTIFICATION OF THE GOB ACTION, WE BELIEVE THE REGULATIONS REFERRED TO BY U.S. TEXTILE INDUSTRY SOURCES MUST BE CDI RESOLUTION NO. 41-75 SIGNED BY THE MINISTER OF INDUSTRY AND COMMERCE IN BRASILIA ON AUGUST 11, 1975, AND PUBLISHED IN THE FEDERAL OFFICIAL GAZETTE ON AUGUST 19, 1975. A FREE TRANSLATION OF THE RESOLUTION IS GIVEN AT THE END OF THIS TELEGRAM.

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3. THE INDUSTRIAL DEVELOPMENT COUNCIL (CDI) OF THE

MINISTRY OF INDUSTRY AND COMMERCE, THROUGH ITS RESOLUTION 41-75, NOW EXTENDS TAX AND FINANCIAL INCENTIVES (ESSENTIALLY EXEMPTION FROM THE FEDERAL IPI, STATE ICM, AND IMPORT TAXES) TO INVESTMENTS IN TEXTILE MANUFACTURING PLANTS AND EQUIPMENT PROVIDED THAT ALL ADDITIONAL PRODUCTION GENERATED FROM THESE CDI-APPROVED PROJECTS IS EARMARKED FOR EXPORT FOR A 5-YEAR PERIOD. NOT INCLUDED REPEAT NOT INCLUDED ARE PROJECTS TO MANUFACTURE OR EXPAND PRODUCTION OF MAN-MADE FIBERS USING DOMESTIC RAW MATERIALS. BENEFICIARIES OF THESE CDI-APPROVED PROJECTS ARE NOT REPEAT ARE NOT REQUIRED TO EXPORT NEW ADDITIONAL OUTPUT. THE RESOLUTION ALSO AUTHORIZES REPLACEMENT OF PROVIDE OBSOLETE EQUIPMENT, AND INSTALLATION OF NEW FACILITIES AIMED AT IMPROVING PRODUCT QUALITY AND THE ELIMINATION OF PRODUCTION BOTTLENECKS.

4. THE CDI RESOLUTION STATES THAT THESE MEASURES DO NOT APPLY TO NEW TEXTILE PROJECTS IN NORTHEAST BRAZIL WHICH ARE REGULATED BY A SPECIAL REGIONAL PLANNING BOARD, "PROGRAM FOR THE INDUSTRIALIZATION OF THE NORTHEAST (PIN)", WHICH WAS ESTABLISHED IN NOVEMBER 1974 BY NATIONAL ECONOMIC COUNCIL. PIN'S OBJECTIVES ARE TO FOSTER THE INSTALLATION OF 300,000 NEW SPINDLES IN NORTHEAST BRAZIL IN CY1975, ACCORDING TO THE TEXT OF ARTICLE II OF CDI RESOLUTION 41-75. PRIORITY APPROVAL OF NORTHEAST BRAZIL PROGRAMS WILL BE GIVEN TO THOSE PROJECTS WHICH, AMONG OTHER COMPLIANCE REQUIREMENTS, WILL INVOLVE THE PURCHASE AND USE OF A LARGER PROPORTION OF LOCALLY-MANUFACTURED TEXTILE MACHINERY AND EQUIPMENT, AND THAT ENVISAGE PRODUCTION DESTINED TO THE EXPORT MARKET.

5. COMMENT: LOCAL CONTACTS IN THE SAO PAULO TEXTILE INDUSTRY DO NOT SEE THE LATEST CDI RESOLUTION AS AN EXPORT INCENTIVE PER SE BUT RATHER AN INCENTIVE TO BRAZILIAN MANUFACTURERS TO INVEST MORE IN THE TEXTILE INDUSTRY. THEY CLAIM THAT INCENTIVES TO EXPORT ARE EXPLICIT FOR COTTON TEXTILES AND WOVEN GOODS BUT NOT FOR MAN-MADE FIBERS. TO BACK UP THEIR ARGUMENT THEY POINT OUT THAT COMPANIES PUTTING UP NEW MAN-MADE FIBERS FACILITIES OR EXPANDING THEIR PRODUCTION CAPACITY ARE SPECIFICALLY EXCLUDED FROM LIMITED OFFICIAL USE

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THE REQUIREMENT TO EXPORT ALL ADDITIONAL NEW OUTPUT. THUS, THEY GENERALLY BELIEVE THAT THE CDI DECISION WAS INTENDED TO INCREASE PRODUCTION FOR DOMESTIC USE. THIS IS BECAUSE IN SPITE OF THE TREMENDOUS GROWTH IN THE PAST YEARS, BRAZIL IS FAR FROM SELF-SUFFICIENT IN MAN-MADE FIBERS AND MUST IMPORT VAST QUANTITIES EVERY YEAR.

6. STILL, IT COULD BE ARGUED THAT ALTHOUGH BRAZIL IS NOT

SELF-SUFFICIENT IN MAN-MADE FIBERS, IT COULD EXPORT MAN-MADE FABRICS OR GARMENTS. HOWEVER, INDUSTRY SOURCES CATEGORICALLY STATE THAT PRICES OF DOMESTIC MAN-MADE FIBERS ARE HIGHER THAN INTERNATIONAL PRICES AND THAT BRAZILIAN MAN-MADE FIBER-BASED GARMENTS COULD NOT BE EXPORTED COMPETITIVELY, EVEN THOUGH EXPORTERS WERE TO BENEFIT FROM ALL EXISTING GENERAL EXPORT INCENTIVES.

7. THE INCENTIVES TO TEXTILE FIRMS IN NORTHEAST BRAZIL ARE AT LEAST PARTLY EXPORT ORIENTED. HOWEVER, IT IS WIDELY THOUGHT IN SAO PAULO THAT THE NATIONAL ECONOMIC COUNCIL'S OBJECTIVE IN SETTING UP PIN WAS PROMPTED BY THE NEED TO RATIONALIZE INDUSTRIAL DEVELOPMENT AND GROWTH IN THAT UNDERDEVELOPED AREA OF BRAZIL RATHER THAN TO FOSTER INCREASED EXPORTS OF MAN-MADE TEXTILES IN THE NEAR FUTURE.

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8. BECAUSE THE EXEMPTIONS REFERRED TO ABOVE PERTAIN TO NEW PLANTS AND EQUIPMENT, AND BECAUSE THE CDI RESOLUTION IS SO RECENT AND IN FACT STILL UNKNOWN EVEN TO LARGE SEGMENTS OF THE TEXTILE INDUSTRY, ANY ATTEMPT TO ASSESS THEIR IMPACT ON EXPORTS OF MAN-MADE TEXTILES IS EXTREMELY PREMATURE. AS STATED ABOVE, MAN-MADE

BRAZILIAN TEXTILES ARE NOT EVEN COMPETITIVE IN WORLD MARKETS AND CONSEQUENTLY A MAJOR UNKNOWN IS THE WORLD PRICE PICTURE WHEN WHATEVER NEW FACILITIES BUILT UNDER THESE EXEMPTIONS COME ON STREAM AT LEAST TWO YEARS FROM NOW. GIVEN THE RECENT ISSUANCE OF THIS CDI RESOLUTION IT IS EVEN IMPOSSIBLE TO GUESS HOW MANY FIRMS WILL TAKE ADVANTAGE OF THE EXEMPTIONS.

9. THERE FOLLOWS THE FREE TRANSLATION OF CDI RESOLUTION 41-75:

A. CDI-POLICY OF INCENTIVES TO THE TEXTILE SECTOR.
MINISTER OF INDUSTRY AND COMMERCE - INDUSTRIAL DEVELOPMENT COUNCIL (CDI) RESOLUTION NO. 41-75.

B. THE INDUSTRIAL DEVELOPMENT COUNCIL, USING THE LIMITED OFFICIAL USE

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PROROGATIVES CONFERRED UPON IT BY ARTICLE 3 OF DECREE 67706 OF DECEMBER 7, 1970, CONSIDERING THE GUIDELINES SET DOWN BY CDI WITH A VIEW TO RATIONALIZING THE EXTENSION OF TAX INCENTIVES TO THE TEXTILE INDUSTRY IN ORDER TO MAINTAIN THEM IN LINE WITH BRAZILIAN ECONOMIC REALITY, RESOLVES TO:

C. ADOPT THE FOLLOWING POLICY OF INCENTIVES TO MANUFACTURERS OF COTTON, SYNTHETIC, ARTIFICIAL, AND MIXED FIBERS, AND WEAVING OF THESE INTO CLOTH FOR GARMENTS.

(1) ARTICLE I. FISCAL AND FINANCIAL INCENTIVES AS INSTITUTED BY DECREE-LAW NO. 1137 OF 7-12-1970, CAN BE EXTENDED TO PROJECTS THAT WOULD COMPLY (WITH THE FOLLOWING REQUIREMENTS).

(A) ITEM 1. EXPORTATION OF THE TOTALITY OF NEW ADDITIONAL PROGRAMMED PRODUCTION DURING A PERIOD OF FIVE YEARS AFTER INSTALLATION OF THE EQUIPMENT;

(B) ITEM 2. IMPROVEMENT OF THE QUALITY OF THE PRODUCT;

(C) ITEM 3. ELIMINATION OF PRODUCTION BOTTLENECKS, SO LONG AS THE COMPANY'S INSTALLED CAPACITY IS NOT ALTERED

(D) ITEM 4. REPLACEMENT, IN ORDER TO INCREASE PRODUCTION, OF MACHINERY AND EQUIPMENT OF PROVEN OBSOLESCENCE, SO LONG AS SUCH MACHINERY HAS BEEN IN USE BY THE COMPANY FOR AT LEAST TWO YEARS, THROUGH EXPORTATION (OF THE MACHINERY) OR SCRAPPING.

(E) ADDENDUM 1. REQUIREMENTS OF ITEM 1 ABOVE DO NOT APPLY TO PROJECTS TO INSTALL OR EXPAND FACILITIES TO MANUFACTURE ARTIFICIAL OR SYNTHETIC FIBERS WHICH UTILIZE BASIC RAW MATERIALS PRODUCED IN THE COUNTRY.

(2) ARTICLE II. PROVISIONS OF ARTICLE I DO NOT APPLY TO PROJECTS DESTINED TO BE PART OF THE PROGRAM FOR THE INDUSTRIALIZATION OF THE NORTHEAST, APPROVED IN THE

MEETING OF 6-11-74. OF THE ECONOMIC DEVELOPMENT
COUNCIL, WHICH LIMITS INCREASE IN (PRODUCTION) CAPACITIES
IN 1975, TO 300,000 SPINDLES, TAKING INTO CONSIDERATION
THE FOLLOWING BASIC PRIORITIES:
(A) PRODUCTION IS DESTINED TO THE EXTERNAL MARKET;
(B) INTRODUCTION OF MODERN ADMINISTRATION AND MANAGEMENT
TECHNIQUES;
(C) TRANSFERENCE OF (PHYSICAL) LOCATIONS OF FIRMS WITH HEAD
OFFICES IN OTHER REGIONS OF THE COUNTRY;
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(D) PROJECTS THAT INVOLVE PURCHASE OF A LARGER VOLUME OF
LOCALLY-MANUFACTURED EQUIPMENT.

D. BRASILIA AUGUST 11, 1975 - SIGNED SEVERO FAGUNDES
GOMES, MINISTER OF INDUSTRY AND COMMERCE. PUBLISHED
IN THE FEDERAL DIAIRIO OFICIAL ON AUGUST 19, 1975.

10. AMEMBASSY BRASILIA CONCURS.
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